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SUBJECT: UK EFFORTS TO MANAGE MIGRATION AS RISING
UNEMPLOYMENT LOOMS (C-RE9-00762)

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Classified By: Economic Counselor Kathleen Doherty for reasons 1.4 b and d.

¶1. (SBU) Summary: Even prior to the worsening of the economy, the UK government was reviewing its immigration policy, with a special eye to fine-tuning and further defining immigration categories. With rising unemployment, reaching 7.2 percent this spring, the UK Home Office is further evaluating whether its Point-Based Migration Systems (PBS) - designed for non-EU migrants - ought to be tightened further. Large-scale changes to UK immigration policy are not expected, though the category for low-skilled labor has been suspended, indefinitely. The press has prominently played up stories of Polish workers returning home, and while some recent studies point to a decline in migration, the data are inconclusive. The effects of the crisis and of UK changes to its immigration policy will take years to be evident. Political considerations and popular opinion, however, may also play a role in how the system is calibrated to the current climate.
End Summary.

Points Based Immigration System Allows Greater Control

¶2. (C/NF) Emma Churchill, Director of Immigration Policy at the UK Border Agency, and John Elliott, Chief Economist at the Home Office, met with ECONOFFs recently to explain the UK's newly created Points Based System (PBS) for managed migration and to update us on the impact of the financial crisis on UK immigration flows. The UK Home Office last year began its transition to the PBS to ensure those with the "right skills" can come to the UK to work or to study. Launched in late February 2008, the PBS was designed to condense more than 80 previous work and study routes into the UK into five tiers and to award points according to workers' skills to reflect their aptitude and experience as well as demand for those skills in any given sector. According to the UK Border Agency's website, the new immigration system allows the Government to "control" migration more effectively, tackle abuse and identify the most talented workers." The five tiers of the PBS have been launched in a staggered fashion, with tier 1 (highly skilled individuals) implemented in early 2008, tier 2 (skilled workers with a job offer) and tier 5 (youth mobility and temporary workers) in November 2008, and tier 4 (students) in March 2009. Tier 3 (low-skilled workers) has been suspended; and Churchill told us, politically, it was unlikely that the route would be opened in the near term.

¶3. (C/NF) Migrants wishing to work in the UK must obtain sufficient "points" by meeting established criteria to qualify for entry clearance. Most migrant workers also require sponsorship from a UK employer. The five tiers have different conditions, entitlements, and entry-clearance

checks, allowing the Government to adapt policy by changing the number of points required and sponsorship conditions, said Churchill. The PBS only applies to non-European Economic Area (EEA) migrants. According to Professor John Salt of the University College of London, less than half of the 454,000 migrants (based on 2007 data) in the UK fell under the PBS managed migration scheme. Salt stated, however, that the greatest amount of public debate over migration related to migrants from EU member states, a subject over which the Government has no control.

Routine Review of PBS Focuses on Recession Effects

¶4. (SBU) Chair of the Migration Advisory Committee (MAC) and Professor of Economics at the London School of Economics (LSE), David Metcalf, told ECONOFFs during a recent meeting, the UK Government has received criticism for the levels of migration as unemployment has risen during the global economic crisis. Consequently, the Government tasked the MAC) an independent body of leading labor economists that advises the Home Office * to explore whether it should restrict migration in a recession. The MAC was asked to consider three specific areas of UK immigration: whether there was an economic case for restricting tier 2 skilled worker immigration to shortage occupations; how dependents of PBS migrants have contributed to the UK economy; and whether further changes to tier 1 criteria were necessary given the changing economic circumstances. The Government tasked the MAC to publish a report addressing the first two areas by the end of July 2009 and a report addressing the third question by the end of October.

¶5. (SBU) Part of the rationale behind the MAC's review, fellow MAC member and LSE professor Jonathan Wandsworth's remarked to a June 19 Greater London Authority (GLA) conference on migration, was that rising unemployment may depress wages and prices. Immigration could add to this downward pressure, though Wandsworth said empirical evidence suggested this could happen only in sectors in which immigrants directly substituted for British workers. Professor Salt highlighted three PBS tools that could manage migration during the downturn: increasing the number of points required in a particular category, raising the salary threshold, and/or increasing the amount of maintenance a sponsor must commit.

Intracompany Transfers and Shortage Occupations Under Review

¶6. (C/NF) One specific area under review, according to Metcalf, was tier 2's intra-company transfers)- the largest component of tier 2 migration of which the majority were IT workers from the Indian subcontinent. While many companies legitimately brought workers to the UK for up to 6 months, some workers have stayed for three years, undercutting labor costs and displacing local workers, Metcalf said. The MAC hoped to eradicate this abuse while retaining the intra-company transfers that benefit the UK. Some options up for consideration have been increasing the penalty for violating the conditions, greater monitoring, and increasing the visa fee. Another lever would be to increase the earnings threshold from GBP 17,000 to GBP 21,000 - 22,000, as the mean wage of British workers is GBP 25,000. Metcalf stressed to us the Government was likely to keep the current intra-company transfer system with only minor adjustments. He predicted U.S. companies were unlikely to be affected because most U.S. intra-company transfers exceed the earnings threshold. (Comment: Indian IT workers could, however, be affected by adjustments to this tier, if income thresholds are raised. Professor Salt estimated that up to 40 percent of work permits went to Indians and that Indians made up 92 percent of all intra-company transfers in the field of computer science. End comment.)

¶7. (C/NF) Metcalf told us the MAC planned to carry out complete reviews of the PBS system every two years, and it would also review occupations on the shortage lists every six months. Despite efforts to tweak the current system, Metcalf

expected few significant changes or attempts to limit migration, as he stressed the current recession would not eliminate labor shortages in a number of fields. He added that it would be politically difficult to back-track on labor mobility, implying open borders were a key part of the UK economy. Comment: The MAC carries a lot of weight. Since its inception, the MAC has produced two partial reviews published September 2008 and April 2009, and the Government has accepted all of the MAC's recommendations so far.

Data Raises Unconfirmed Suspicion Migrants Displace UK Workers

¶8. (C/NF) Chief Economist from the Home Office John Elliott highlighted that the Q4 2008 UK Labor Force Survey (LFS) data compiled by the Office of National Statistics in February 2009 had created a stir. Some had taken the data to mean that some UK workers were displaced by immigrant workers; however, he felt the data neither confirmed nor refuted this speculation. Q1 2009 ONS data indicated in the 12 months to the January - March 2009 period, employment of UK nationals fell by 381,000 to 26.7 million while employment of non-UK nationals increased by 66,000 to 2.35 million. The national unemployment rate reached 7.2 percent during February-April 2009 period, a nearly 2 percent increase from the same period a year earlier.

¶9. (C/NF) Elliott stated, however, that 2007 and 2008 surveys from various think-tanks indicated that UK migrants do not negatively impact employment rates of UK nationals; and there had been no correlation between migration from A8 countries (Czech Republic, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Poland, and Hungary) and UK nationals, unemployment figures. He believed the Home Office would only tighten immigration if it felt there were an economic disequilibrium caused by the economic crisis; but Elliott said the recommendations must take into account that as the UK heads out of recession, the demand for skilled labor will increase. Churchill and Elliott, though, stressed that public perception was important, saying that unemployment was a lagging indicator, which could play into politics. Churchill added that a high rate of unemployment with a high influx of migrants was not politically sustainable. One option to address this would be to raise local skills to match needs.

Fall in Flows; Long-Term Trends Stable

¶10. (SBU) Recent data from the UK's Office of National Statistics showed that the number of residents from A8 Eastern European countries departing the UK increased, while inflows from the same countries fell, suggesting a decline in net migration. Professor Wandsworth suggested overall inflows of immigrants have been falling since the end of 2006, but the overall number of migrants had risen since Q4 2009 as a result of smaller outflows (because people already in the UK were choosing to stay longer). Fiona Adamson, Professor at the School of Oriental and African Studies stressed to us during our late May meeting, that Eastern European migration was much more elastic than South Asian migration, in part because South Asian communities in the UK were more entrenched, more intertwined with British history, and more likely to be family-based immigrants. Because of their strong roots in the UK, return migration of South Asians would be less likely.

¶11. (SBU) Academics differed somewhat on what permanent impact a temporary decline in the inflow of migrants would have on the overall UK population. Wandsworth noted in the last two recessions, there were small declines in the overall numbers of migrants from peak to trough (approximately a one percent decline (or 370,000 people)). He expected the same from the current recession. Professor Salt, on the other hand, saw little long-term variation in overall numbers despite shifts in flows. As in past recessions, he expected immigration flows to increase before UK unemployment reached

its peak; emigration, on the other hand, would increase initially and then decrease and stay low thereafter, leading to little overall change. moreover, Professors Adamson and Salt both noted access to benefits and the stronger safety net in the UK provided incentives to stay, even for Eastern Europeans. If a Polish national worked in the UK for 12 months, he/she would be eligible for employment benefits in the UK but would receive nothing if he/she returns to Poland, said Professor Salt. He was critical of press reports on the numbers of migrants leaving, stating that the stories were anecdotal and that the Polish government did not track data on returning Polish nationals. (Comment: According to press reports, the crisis has triggered an increase in migrants leaving the UK, with nearly 30 percent leaving since the recession began and 50 percent fewer Eastern European migrants registering to work during the first quarter of this year. End comment.)

¶12. (SBU) According to Professor Wandsworth, unemployment rates of immigrants, historically, have been more sensitive to the economic cycle; however, this may be changing. In the last recession, the unemployment rate for immigrants reached 12 percent, compared to 8 percent for the UK-born population.

Immigrants bore the brunt of the recession because often they were employed in the hardest-hit sectors, Wandsworth said. He stressed immigrants were unlikely to be so vulnerable during the current recession. The pattern in previous recessions held because many earlier immigrants to UK were relatively less skilled. Wandsworth speculated, however, that immigrants, on average, were now better educated so they might be better protected from downturn.

Experts Critical of Data; Warn of Small Sample Bias

¶13. (U) Despite media speculation on migration trends, and anecdotal evidence, it is too soon to tell what will be the lasting impact of the financial crisis on migration. The few studies, including the Office of National Statistics' Labor Force Survey and the International Passenger Survey, that have been done have only sampled a limited number of households. It might take several years to understand the effects of the crisis, and the fine-tuning of the UK's points-based system, on immigration.

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